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1 IN THE UNITED STATES DISTRICT COURT
2 FOR THE SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION

4 IN RE: ALTA MESA)
5 RESOURCES, INC.) Case No.: 4:19-cv-00957
6 SECURITIES LITIGATION)
7

8 ORAL VIDEOTAPED DEPOSITION OF

9 RONALD SMITH

10 March 24, 2023

11
12 ORAL VIDEOTAPED DEPOSITION OF RONALD SMITH,
13 produced as a witness at the instance of the Class
14 Plaintiffs and duly sworn, was taken in the
15 above-styled and numbered cause on the 24th day of
16 March, 2023, from 9:02 a.m. to 3:07 p.m., before
17 Vickie G. Hildebrandt, Certified Shorthand Reporter
18 in and for the State of Texas, reported by
19 computerized stenotype machine at the offices
20 Latham & Watkins LLP, 811 Main Street, Suite 3700,
21 Houston, Texas, pursuant to the Federal Rules of
22 Civil Procedure and the provisions stated on the
23 record or attached hereto.

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1 A. Yes.

2 Q. Were you employed with Alta Mesa Holdings as
3 the chief accounting officer for that company?

4 A. No.

5 Q. Okay. What -- what -- how were you -- what
6 was -- what was your -- what was your job at Alta Mesa
7 Holdings?

8 A. My initial role was controller.

9 Q. I see.

10 MS. WALLER: Object to form.

11 Q. And at some point did you become the chief
12 accounting officer of Alta Mesa Holdings?

13 A. Yes.

14 Q. When was that?

15 A. I believe it was somewhere around -- I know
16 the year was 2016 but I don't remember the exact
17 month.

18 Q. And -- and what were your duties and
19 responsibilities as chief accounting officer of
20 Alta Mesa Holdings?

21 A. Largely the same as controller. It was -- I
22 had been with the company for a while and it was a
23 promotion into a -- kind of a high ranking position
24 with a -- with a privately held company.

25 Q. Okay. What were those duties and

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1 Q. Okay. Are you there, sir?

2 A. Yes.

3 Q. Okay. Great.

4 And -- and -- and you see, it -- it
5 says in the -- in the next to last paragraph on that
6 page, Management collectively called out ineffective
7 control activities related to financial reporting and
8 routine and non-routine transactions rather than any
9 significant account because the nature of the process
10 level control deficiencies was so pervasive.

11 Do you -- was it your understanding
12 that KPMG had come to that conclusion --

13 MS. WALLER: Object to form and
14 foundation.

15 Q. -- at that time?

16 MS. WALLER: Object to form and
17 foundation.

18 A. Yes.

19 Q. In your view as chief accounting officer, why
20 in 2018 were there material weaknesses in Alta Mesa's
21 internal controls for financial reporting that was so
22 pervasive as to affect all its significant accounts?

23 MS. WALLER: Object to form.

24 A. Primarily the -- the common denominator,
25 I'll call it, that relates -- goes back to all these

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1 A. Yes. They were engaged in, I believe, July
2 of 2018.

3 Q. You're right.

4 And they were only auditing the
5 internal controls for financial reporting as of
6 December 31, 2018; is that correct?

7 A. Yes.

8 Q. And so KPMG did not determine whether the
9 material weaknesses in Alta Mesa's internal control for
10 financial reporting that KPMG detected as of
11 December 31, 2019 existed at earlier dates; is that
12 correct?

13 MS. WALLER: Object to form.

14 A. Yes.

15 Q. Had Alta Mesa Holdings, through -- through your
16 agencies -- agency as a chief accounting officer or
17 otherwise, evaluated the effectiveness of its internal
18 control for financial reporting prior to the business
19 combination?

20 MS. WALLER: Object to form.

21 A. Yes.

22 Q. Okay. And why did it do so?

23 A. As I stated --

24 MS. WALLER: Object to form.

25 A. As I stated earlier, we were a SEC filer due

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1 reserves?

2 MS. WALLER: Object to form.

3 A. I'm only aware of proved developed reserves
4 and proved -- what's it -- behind pipe, approved
5 non-producing -- there's two of them, PDNP and PDP.
6 I don't know what they stand for but there's two.

7 Q. How about PUD, P-U-D?

8 A. PUD is proved undeveloped reserves.

9 Q. And -- and did you understand there was a
10 typology that distinguishes between different types of
11 unproved reserves?

12 A. No.

13 Q. Do you -- did you understand there was a
14 difference between probable reserves, possible reserves
15 and contingent reserves?

16 A. Yes.

17 MS. WALLER: Object to form.

18 Q. Okay. And -- and -- and what was your
19 understanding at all times that you were chief
20 accounting officer of Alta Mesa as to the significance
21 of the audit risk posed by a possible inaccurate
22 estimation in the amount of Alta Mesa's oil and gas
23 reserves?

24 MS. WALLER: Object to form.

25 A. I was not responsible for the reserves and

1 account -- you know, I'll say accounting for the
2 reserves of the company. That was done by the
3 reserve engineering group. I knew that the reserve
4 engineering group had the reserves audited at least
5 annually by a third party and that audit -- you know,
6 oftentimes I would see the results of that audit to
7 ensure that there were no discrepancies plus or minus
8 5 percent or whatever the -- the threshold was at the
9 time.

10 Q. Yeah, and I -- I appreciate your answer.

11 My -- my question, though, is did you
12 understand what the significance of the audit risk
13 that was posed by a possible inaccurate estimation of
14 the amount of Alta Mesa's oil and gas reserves
15 just -- just in terms of -- of the ability to confirm
16 the accuracy of Alta Mesa's financial statements?

17 MS. WALLER: Object to form and
18 foundation.

19 A. Yes.

20 Q. Okay. And -- and what was that -- what -- what
21 was your understanding of that significance?

22 A. Of the risk?

23 Q. Yes.

24 MS. WALLER: Same objection.

25 Q. Yes.

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1 preparation of a reserve report.

2 I also know that they're closely tied
3 to the operations of the company so I'm on the side
4 that's producing -- or producing financial reports
5 that feed into the reserve report for actuals, what
6 actually occurred within the company, the volumes of
7 oil, gas, NGLs, the lease operating cost, G&A, all
8 those things are important to a reserve report and
9 that's my role, to ensure that information is
10 delivered accurately and completely, but they really
11 handle all the rest. They -- as -- as far as the
12 preparation of the reserves and any sort of review or
13 audit that's provided by a third party.

14 Q. So let me just ask you, did you have any
15 responsibility with respect to controls to ensure that
16 there was not over-reliance on unproven reserves?

17 A. No.

18 MS. WALLER: Object to form.

19 Q. And -- and you mentioned a third party. That
20 was -- was that Ryder Scott?

21 A. Yes.

22 Q. Okay. And -- and do you know how many years
23 Ryder Scott had been conducting audits for Alta Mesa
24 Holdings?

25 A. It was -- it was a number of years. I --

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1 I'll give you a range of five to eight. I -- I don't
2 recall the exact number of years.

3 Q. And -- and -- and did you have an understanding
4 as to what type of reserves Ryder Scott audited?

5 A. Not specifically. My -- my -- my impression
6 from the accounting perspective is they audited all
7 the reserves.

8 Q. You -- you weren't aware that Ryder Scott only
9 tested proved reserves?

10 A. Not specifically.

11 Q. Did you have a role in connection with the
12 preparation of the management reserve reports?

13 MS. WALLER: Object to form.

14 A. My only role, as I said a second ago, was to
15 provide actual data for the different fields or wells
16 or what have you so that they could use that to work
17 up their projections or the current environment of
18 the reserves.

19 Q. You mentioned earlier, sir, that in the fourth
20 quarter of 2018, I believe in December 2018, that the
21 board of directors had asked for the resignation of
22 several senior members of management.

23 Do you recall why that occurred?

24 MS. WALLER: Object to form and
25 foundation.

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1 comfortable with the inputs in the Citi model.

2 Do you see -- do you see that?

3 A. Yes.

4 Q. Okay. And -- and you're asking Mr. Klemowits
5 for how opex -- that's operational expenses, correct?

6 A. Uh-huh, opex, uh-huh.

7 Q. And capex, capital expenses?

8 A. Yes.

9 Q. And -- and G&A, general and administrative
10 expenses?

11 A. Yes.

12 Q. Are estimated because you say those who created
13 the model are gone and there are no notes as to how they
14 came up with the information.

15 Do you recall this situation?

16 A. Yes.

17 Q. Okay. And -- and who are those individuals
18 that created the model that are no longer there?

19 A. I don't recall. They worked at Citibank.

20 Q. I see. Okay.

21 And -- and then you see that in the --
22 in the other E-mail, the top one -- there's actually
23 three E-mails but the middle one where Mr. Klemowits
24 suggests getting a range from comparable guideline
25 companies if the company lacks historical input.

1 Do you -- do you recall that?

2 A. Yes, that was Keith's response to my
3 question.

4 Q. Right. Okay.

5 So let -- let me -- well, with respect
6 further to that situation, let me show you another
7 document which we'll have marked as Exhibit 231.

8 MS. WALLER: 232.

9 MR. SCHOCHET: Is it 232? 232. Okay.

10 My mistake.

11 MR. HAQUE: 47?

12 MR. SCHOCHET: Yes.

13 (Exhibit Number CP-0232 marked.)

14 Q (BY MR. SCHOCET) These are a series of
15 E-mails starting at December 6, 2018 and then the
16 bulk of them are -- are -- are on December 21, 26,
17 2018 and you're on these E-mails.

18 Do you recall these E-mails?

19 A. Yes.

20 Q. Okay. If you'll look at the E-mail -- the
21 E-mail dated December 26, 2018 at 10:41 a.m.

22 A. Okay.

23 Q. And Mr. Grandt is saying that, I would
24 encourage you to -- I would encourage us to look at
25 historical numbers as justification for the go-forward

1 model versus peers because most peers have multiple
2 plants in various basins. They will not break out the
3 detail you're looking for in their own financials that
4 are publicly available.

5 Do you recall seeing that?

6 A. Yes.

7 Q. Did you agree -- did you agree with Mr. Grandt
8 that -- that -- that it would be difficult to use
9 peer -- peer -- peer numbers because peers do not break
10 out the detail you're looking for in their own
11 financials?

12 A. I -- I don't know.

13 Q. You don't remember?

14 A. I mean, he -- he was -- he was the
15 vice president of finance and regularly reviewed
16 these sort of things and would know more of how
17 companies presented data than I would.

18 Q. Did you accept it as being true at the time?

19 A. Yes. What Scott said, yes.

20 Q. Okay. And so he's saying that -- he's
21 encouraging you to look at historical numbers as
22 justifications and -- and you say in the E-mail above
23 that responding, We have done that at the high legal and
24 they do not come close to the model used in the
25 valuation.

1 Do you see that?

2 A. Yes.

3 Q. And do you recall that?

4 A. Yes.

5 Q. So if you -- you couldn't use historical
6 numbers and -- and peer numbers were not available, do
7 you recall if -- if -- if AMR ever found support for the
8 modeled assumptions from --

9 MS. WALLER: Object to form.

10 A. Not completely, no.

11 Q. Do you recall how this situation was resolved?

12 A. I don't recall.

13 Q. All right. Let me show you another document
14 which we'll have marked as Exhibit 233. It's tab 42.

15 (Exhibit Number CP-0233 marked.)

16 Q. (BY MR. SCHOCHE) I apologize that the --
17 the writing on this is very small.

18 A. Yes, it is.

19 Q. Yeah. We'll have to make do with it.

20 A. That's okay. I can see.

21 Q. Good, because I don't know if I can.

22 Let's see. So it's a series of

23 E-mails. It's dated June 14 and 15, 2018 and your
24 name appears as a recipient in all but the last one
25 on the second page.

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